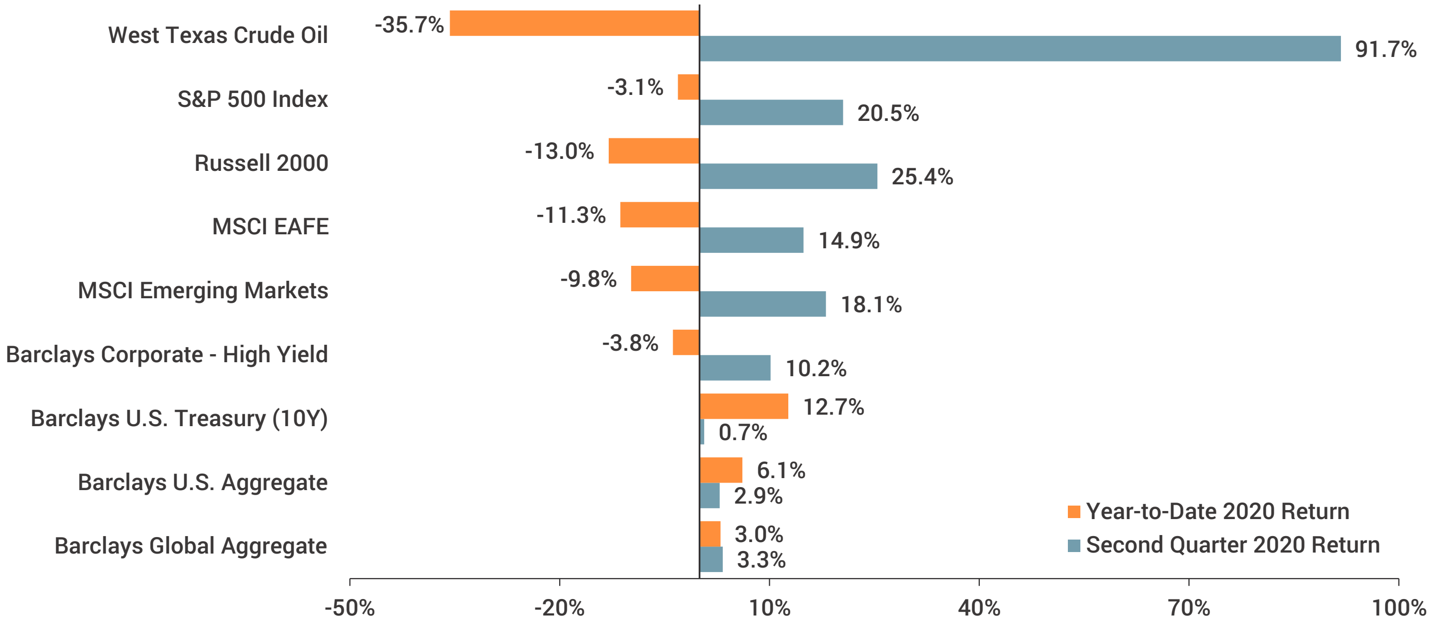
Market review:
Second Quarter 2020



Sources: Glenmede Investment Management L.P. and FactSet *Data through 6/30/2020*

Q2 trends you have to see to believe

Following the first quarter's fastest-ever bear market plunge, the second quarter marked another record-breaking trend to the upside. The S&P 500 index recovered from its bottom to within 5% of its February peak in only 53 trading days. We convey the second quarter narrative in a series of charts depicting extremes that must be seen to be believed. The recovery drove the index to its highest-ever concentration as the top two stocks, Microsoft and Apple, represented more than 12% of total market capitalization. The market's recovery, however, was not mirrored in the job market — still down nearly 15 million jobs due to COVID-19-related closures. Despite central banks' massive new issuance, sovereign debt yields remained largely below 1% as uncertainty increased demand for safe-haven assets. In shutting down the U.S. economy, the pandemic produced another incredible result: West Texas Intermediate crude oil futures traded at negative $40 a barrel in late April, before rebounding nearly 92% in the second quarter for their best performance since 1990 (chart above). As with last quarter's communication, we close with the options market's forecast for the year's second half, including a 45% probability of the S&P 500 finishing in positive territory (above 3230.78) — up from a 25% probability last quarter.

Loss of 22 million jobs triggers massive Fed stimulus

After creating nearly 23 million jobs between 2010 and 2020, the U.S. economy lost 22 million jobs in March and April due to COVID-19-related shutdowns. Employment is slowly recovering, with 7.5 million jobs added in May and June — still down nearly 15 million jobs from February's peak.

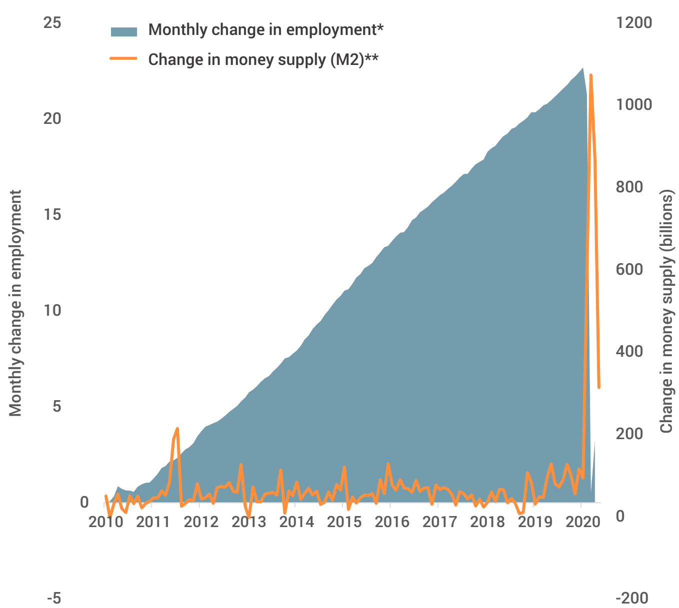
To compensate for the drastic job losses and to stabilize markets, the Federal Reserve injected unprecedented liquidity, expanding its balance sheet by $3 trillion in only three months. This massive Fed intervention increased the M2 money supply by $1.1 trillion in April alone, more than 10 times the $94 billion increase in February. While the M2 increase in June was less drastic than it was in April and May, it still reflects a more than 5.5x increase versus the median change in monthly money supply over the past decade. M2 includes cash, bank deposits, money market securities, mutual funds and other time deposits.

Fastest recovery in history nearly matches record bear-market plunge

From all-time highs in February, the S&P 500's collapse in a bear market and nearly full recovery were the fastest in history — whipsawed by COVID-19-related shutdowns and massive liquidity support from the Fed.

The quickest bear-market drawdown in history occurred in March, taking only 16 trading days, compared to an average of 203 for past bear markets since the Great Crash in 1929 . From the start of the bear market, a bottom was reached in a record seven trading days, compared to an average of 117 trading days. Finally, the recovery from the bottom to within 5% of February's peak was also the fastest in history, taking 53 days, compared to the average of 500.

EXHIBIT 1:
10 years of job growth vanished in only two months — triggering massive Fed stimulus

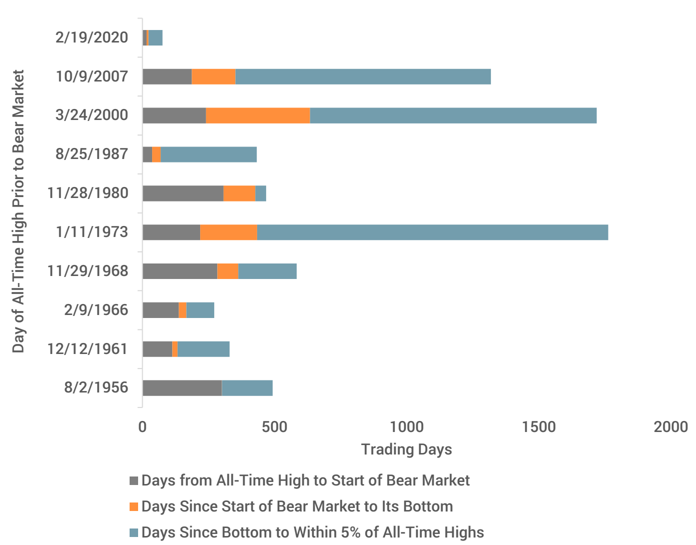


*Cumulative non-farm payroll data, monthly, seasonally adjusted, 1/1/2010 through 6/30/2020.
**Change in M2 Money stock, monthly

Sources: Bureau of Labor Statistics, Federal Reserve Bank of St. Louis

EXHIBIT 2:
The fastest bear market plunge and recovery in history

Timeline of Previous Bear Markets



Sources: Glenmede Investment Management LP, Bloomberg   Data through 6/30/2020

S&P 500 concentration reaches a new record

S&P 500 concentration is the highest ever — exceeding the last peak during the technology bubble in 2000-2001. For the first time, the two largest stocks, Microsoft and Apple, each represent more than 6% of the index and together account for more than 12%. To put this in perspective, the top two stocks represent $3.12 trillion in capitalization, or more than 150% of the entire Russell 2000 Index.

Due to the relative strength of the technology sector (up 15% year-to-date), the concentration has led to drastically different index performance relative to the average stock. For example, the S&P 500 was down only -3.1% year-to-date at the end of Q2, while the average stock was down -10.8%.

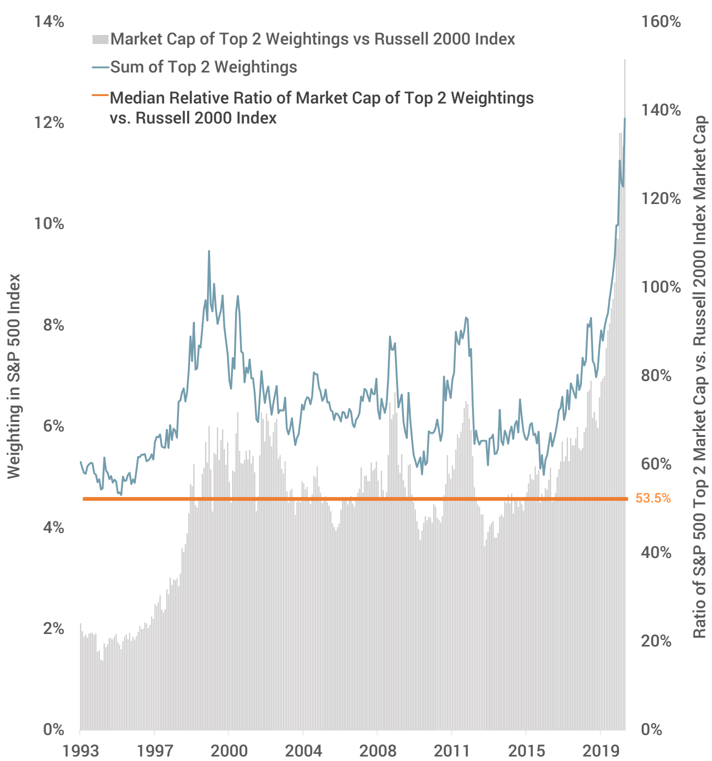
Record volume of DM sovereign debt yields less than 1%

A record amount of developed markets sovereign debt is yielding less than 1% as a result of unprecedented stimulus by global central banks and insatiable demand for safe-haven assets.

Central banks have been buying debt to keep a low ceiling on rates, providing a vast amount of liquidity to the financial system that has driven the rally in risk assets.

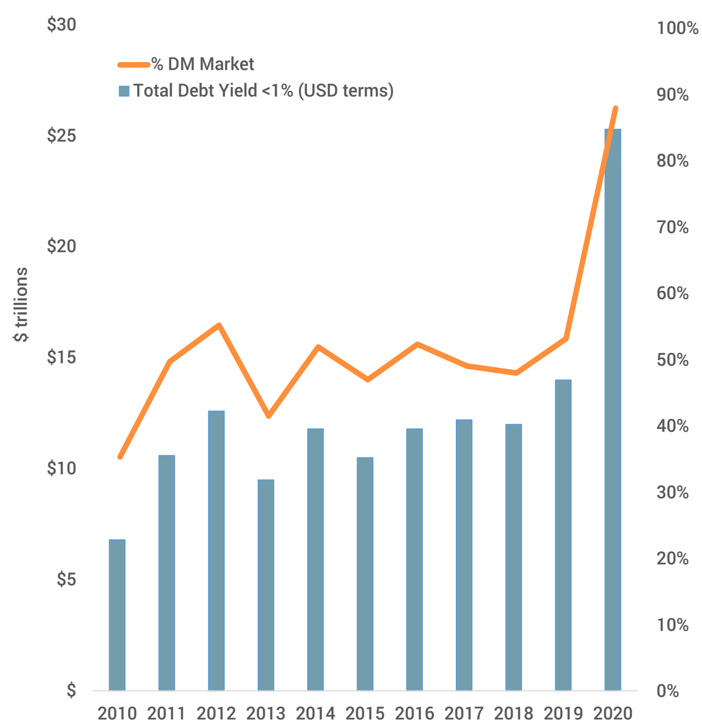
The sub-1% yield applies to $28.7 trillion, or 88%, of the ICE BoA Developed Markets Sovereign Bond Index with a nearly nine-year effective duration, as of July 10, 2020.

EXHIBIT 3:
S&P 500 Index concentration reaches a new peak



Sources: Glenmede Investment Management LP, FactSet *Data through 6/30/2020*

EXHIBIT 4:
Record volume of developed markets sovereign debt yields less than 1%



Sources: Glenmede Investment Management LP, FactSet *Data through 6/30/2020*

Options market: 45% probability of positive returns for the year

The U.S. equity markets experienced the fastest bear-market plunge in history, falling 34% during the first quarter, followed by a rapid recovery to within 8.4% of its peak at the end of the second quarter — the strongest rally in the S&P 500 since 1998. Despite the rebound, volatility risk remains elevated due to pervasive uncertainty over the economic recovery and the 2020 presidential election.

Following last quarter's dramatic drawdown, our Q1 Quarterly Statement discussed fiscal and monetary policy in our bull, bear and base case scenarios. We used S&P 500 Index options to calculate the market's implied probability of three possible year-end closing price ranges — up on the year, below March lows or somewhere in between. For the second quarter, Stacey Gilbert, Portfolio Manager – Derivatives, updates our policy commentary and the market's current implied probability of year-end price return ranges.

Monetary and fiscal policy support the equity market recovery — but risks remain elevated

We continue to believe that a combination of fiscal and monetary policies, economic recovery and medical breakthroughs will be necessary to return to a sustained bull market. Nonetheless, the market rebounded dramatically this quarter with few significant developments on any of those fronts.

Monetary and fiscal policy remain the cornerstone of support for this rally. Although any deviation would likely be perceived as negative for the markets, fiscal policy is more likely to be the wildcard.

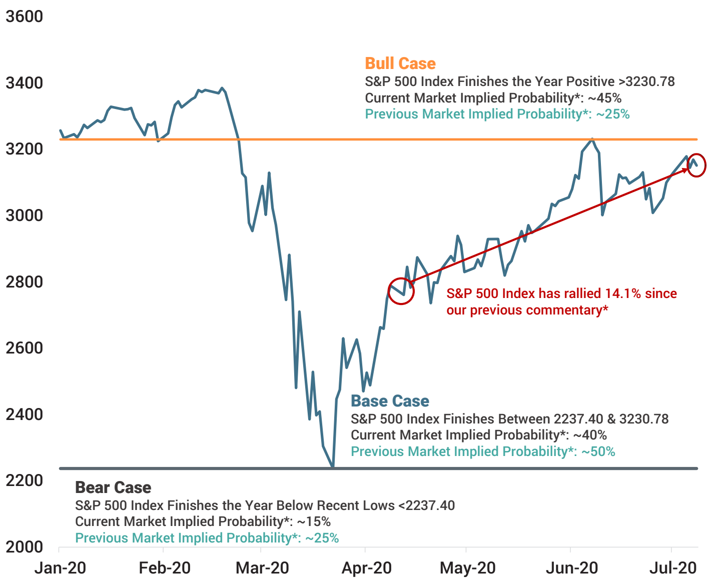
Monetary policy: While monetary policy is a clear driver of the equity rally, the realization that the Fed was comfortable with extraordinary and rapid intervention has added to the risk-on shift. Although recent Fed commentary has been more cautious on the equity rally relative to the economic recovery, investors seem to believe the Fed's toolkit is still available in the event of another dramatic pullback in overall market liquidity. In the near term, this expectation is likely to be supportive and help to avoid retesting March lows.

Fiscal policy: There have been few developments following the March 27 adoption of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the largest financial stimulus rescue package in U.S. history at $2.2 trillion. With parts of the relief package set to expire on July 31, including the $600 weekly increase in state unemployment benefits, the market has high expectations of an extension of current benefits or an additional stimulus package. In the near term, any delay would likely be perceived negatively for equities and could result in a retest of March lows.

As for the economic recovery and medical breakthroughs, both remain uncertain as they require more time to resolve. While there have been positive developments in medical treatment and a potential vaccine, we have yet to see a major breakthrough or specific timeline. The economic recovery appeared to be starting this quarter — as measured by the jobless rate, credit card data and restaurant reservations, to name a few — but the pandemic's resurgence continues to create market uncertainty.

In Exhibit 5, we calculate the market's implied probability of various outcomes using the S&P 500 Index December 31 expiration options. We compare this to our last quarterly update following the 20.0% price rally in the second quarter. Interestingly, while the market rallied to within 8.4% of its pre-pandemic peak at quarter-end, the level of uncertainty in the second half of the year remains elevated. The options market implies a 15% probability of the index being at least 30% lower by year-end — more than three times the implied probability of a similar drawdown before the pandemic.

EXHIBIT 5:
S&P 500 Index Market Implied Year-End Probabilities



Sources: Glenmede Investment Management, LP, Bloomberg
**Previous market implied probability as of 4/13/2020 and S&P 500 Index price reference of 2761.63, and current market implied probability as of 7/9/2020 and S&P 500 Index price reference of 3152.05*

The Base Case

As noted in Exhibit 5, S&P 500 options imply a 40% probability of finishing the year between the March lows of 2237.40 and positive territory of 3230.78, compared to the 50% probability as of last quarter. As noted previously, the stickiness of the S&P 500 longer-dated implied volatility contributes to this probability not contracting significantly in the second quarter.

Our base case assumptions remain similar to last quarter. We believe the economic recovery to be potentially U-shaped. Monetary policy remains prominent with both actual support and the expectation of future support if necessary. Fiscal policy may not have a phase four stimulus, but may include extensions of the current relief programs. While the economic outlook remains unclear, we are starting to see further evidence supportive of a recovery — albeit taking longer than hoped, but shorter than feared. Finally, we assume the 2020 U.S. presidential election occurs smoothly, fairly and uncontested — regardless of outcome.

The Bull Case

As noted in Exhibit 5, the S&P 500 options are implying a 45% probability of finishing the year in positive territory above 3230.78, compared to a 25% probability after the first quarter. While the market could retest lows, the probability reflects higher market expectations of a positive price return at the end of the year, compared to the end of 2019.

The most notable driver of the shift is the price rally in the S&P 500 — a V-shaped recovery supported by monetary and fiscal policy. Again, the expectation of additional monetary support if needed and a phase four fiscal stimulus underpin this rally.

We continue to believe that a medical breakthrough will be pivotal for the economic recovery. While a vaccine is the goal, implementation will take time and results may depend on its effectiveness and widespread public adoption in the face of potential safety concerns. Continued improvements in treatment and a better understanding of potential immunity for those with antibodies are more likely to increase public confidence in returning to activities that will drive economic recovery. Since the economy has not experienced the same V-shaped recovery as the stock market, signals of increasing negative economic impact could trigger a second major pullback, shifting the market's path to a W-shape.

The Bear Case

As noted in Exhibit 5, S&P 500 options imply a 15% probability of finishing the year below the March lows of 2237.40 , compared to the 25% probability as of the first quarter. While the trajectory during the second half could include more rallies, the probability reflects lower market expectations of the index falling below March lows by year end.

Given the S&P 500's more than 14% price rally since our last market snapshot, it is unusual that the implied volatility of year-end options has not declined significantly. The typical relationship involves an index rally that is accompanied by a decline in implied volatility as risk comes out of the market. The minimal decline shows the market's continued uncertainty. In addition, the price of downside protection, relative to upside participation (skew), has increased, reflecting the market's concern about a potential retracement, rather than an upside breakout. Both of these effects contribute to the market's implied bear case probability declining to 15%, compared to pre-COVID pricing that would have implied a probability closer to 5%.

While supportive monetary policy is an argument against the bear case, the Fed does not have levers to pull on the fiscal side. If current programs expire without extensions or discussions of extensions, the market is likely to decline. While the market is currently shrugging off the resurgence in COVID-19 cases, a significant increase in the death rate could change behavior and potentially prolong the path to recovery. Our bear case assumes the failure of multiple needed measures, causing an unexpected negative event for markets.

Conclusion: Monetary and fiscal policy remain crucial to recovery

While the market's swift drawdown in Q1 was unexpected, so too was the speed of recovery experienced in Q2. Market leadership and index concentration indicate that the rebound has been largely dependent on optimism in the tech sector. Under the surface, however, volatility remains heightened and the average S&P 500 stock's return for the year remains down more than 10%. As the U.S. faces the world's highest number of COVID-19 cases that continue to rise, monetary and fiscal policy support remain crucial to market sentiment and a broader economic recovery.

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